HOUSING MARKET OUTLOOK

Saskatoon CMA

Canada Mortgage and Housing Corporation

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New Home Market

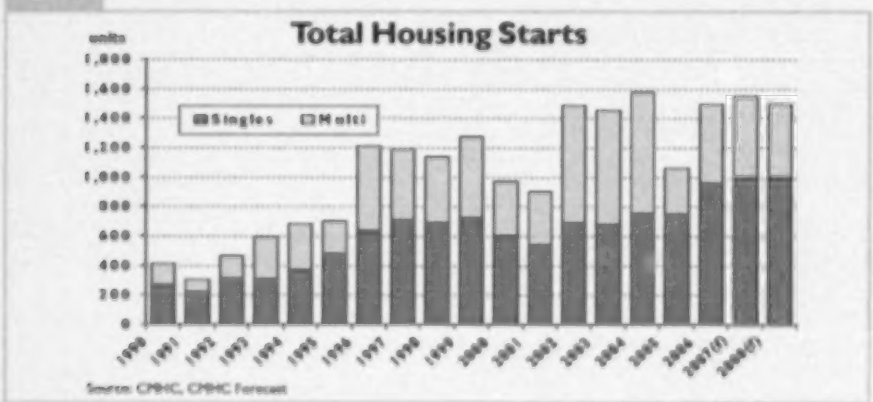
Single starts maintain momentum

Single-detached starts will maintain their current brisk pace in 2007 and 2008 with 1,000 units started in each year. (See Figure 1) Both years will see escalating prices and longer building periods due to persistent labour shortages. The expected production levels will represent the strongest output of single units since 1987, when construction totalled 1,093 units. Employment and wage gains and in-migration deserve credit for the surge in single housing starts.

A scarcity of good quality resale listings is also contributing to the robust level of single-detached demand.

The elevated level of starts and scarcity of skilled trades people have contributed to a relatively high number of units under construction. In the first quarter of 2007, there was an average of more than 550 units at various stages of construction. This is the highest

Figure 1



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average quarterly number of units under construction since 1987.

The Saskatoon market has seen a steady increase in the rate of absorption since July of 2006. In the first quarter of 2007, the average rate of absorption reached 59 units per month, 34 per cent higher than last year's rate.

The supply of single-detached homes (defined as units under construction and units completed and unoccupied) is sufficient to last almost 11 months, slightly higher than last year at this time.

Average price of new housing units up more than 10 per cent annually

After a 12 per cent increase in average absorbed price in 2006, the average price of a new unit will increase by 15 per cent in 2007 and 9.1 per cent in 2008. Rising material and labour costs combined with higher land development costs, fees, and taxes will be the primary contributors to the gains in average price, although the continued shift in the share of sales occurring above $200,000 will also skew the average price upwards.

In 2005, sales in the $200,000 to $299,999 captured 41 per cent of the total absorptions. In 2006, the proportion of homes in this price range moved up to 48 per cent of the market. In the first quarter of 2007, this range increased further to represent 57 per cent of the new home market. Price ranges above $200,000 all saw an increase in market share while lower price ranges saw declines.

Land development has been an important issue in Saskatoon over the last 12 months. The City of Saskatoon, being one of the two biggest land developers in the city, has agreed to dramatically increase the pace of land development to meet professional home builder demands. In 2007, combined City and private land development is planned to reach more than 1,500 lots. This is a significant increase over previous years when City and private sector land development was sufficient to meet lot sales of 450 to 500 lots annually.

Condominium apartments dominate multiple activity

Multi starts, which include semi-detached, row, and apartment units, rebounded in 2006 to 537 units representing an increase of almost 73 per cent from the 2005 figure. Our forecast calls for this production level to be maintained in 2007 with 550 units, falling back only slightly in 2008 with 500 units. (See Figure 1)

Most of these multiples will be condominium tenure designed for the empty-nesters and seniors market, as they offer such features as elevators and underground parking. More than 300 of these type of units were started in 2006 while only 20 apartment style rental units began construction.

At the end of the first quarter, the supply of all types of multiple units is up more than 50 per cent compared to the 2006 figure. Most of these units are in the construction stage and the bulk of these are apartment style. There has been a significant increase in the number of row units under construction compared to this time in 2006. The row condominium style unit has enjoyed resurgence since 2005 when this style almost disappeared from the Saskatoon new housing market.

At the current absorption trend of 18 to 20 units monthly, the supply of condominium apartment units is sufficient to last about 20 months. Absorptions have been brisk and we expect developers will be bringing more of these units to the market in the near future.

Price of apartment condominiums to escalate in 2007

At the close of 2006, over 30 per cent of the apartment condominium absorptions that took place in that year were in the $140,000 to $159,999 price range and 29 per cent were absorbed at selling prices in the $160,000 to $179,999 range.

Based on data from the close of 2006, the average price of apartment condominiums was just over $158,059. We expect there will be considerable escalation in the average price of these apartment style units in 2007 as demand has been strong and pricier projects are entering the absorption stage. Production cost pressures will further add to the average condominium price.

Resale Market

Resale market sales to rise to a new level in 2007

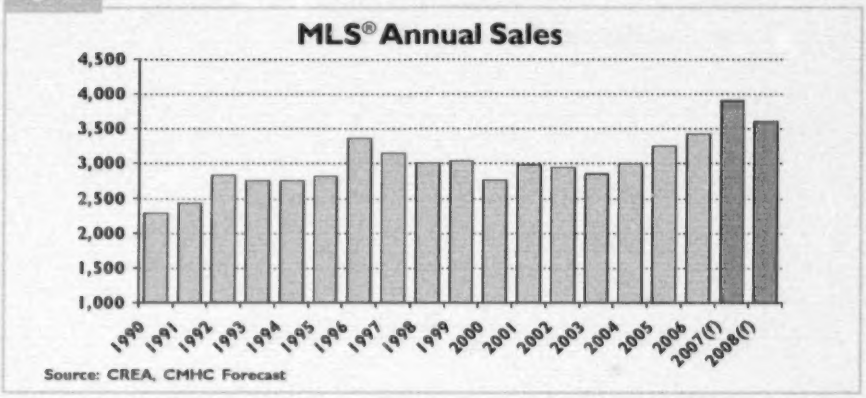
Supply of listings will define market

Saskatoon's resale market will see a 13.7 per cent increase in sales in 2007, making that year the highest number of sales on record. Although sales will decline to 3,600 sales in 2008, this will still be a historically high level of resale transactions in Saskatoon. (See Figure 2)

Similar to the new home market, demand for resale housing has been supported by rising weekly earnings, in-migration, and favourable labour market conditions. Also contributing to the elevated level of sales has been continued low mortgage rates and a precipitous increase in new home prices relative to the resale market. Solid equity gains from the past few years are also providing owners an opportunity to upgrade their home to a more expensive unit. Meanwhile, investors from Alberta are viewing Saskatoon's hot market as their next opportunity, providing a further thrust to activity. Sales will fall off somewhat in 2008 due to rising prices and peaking of listing volumes.

In 2007, listings will increase as empty-nesters and seniors move into newly constructed condominiums and others take possession of their new single-detached units. At the end of the first quarter however, listings have yet to benefit from the shift of existing homeowners into new housing. In fact, according to the Saskatoon board, the inventory of active listings was down 44 per cent from the end of the first quarter in 2006. This is resulting in bidding wars for prime product and sales in excess of list price are frequently reported.

Figure 2



The local real estate association reports the average number of days a single-detached property is listed prior to sale had declined to only 30 days at the end of the first quarter in 2007 compared to 37 days at the end of March 2006.

Average resale price to increase to $195,000 in 2007 and surpass $200,000 in 2008

Average prices are expected to increase by 21.4 per cent in 2007, bringing the average resale price to $195,000. This will dwarf the previous record increase of 11.5 per cent set in 1997. The forecasted increase of 10 per cent in 2008 will be modest by comparison, but will be among the highest gains on record. A move toward balanced market conditions should result in the weaker price gains next year.

A robust economy is driving demand for a scarce supply of listings while rising average weekly earnings are providing homebuyers with the wherewithal to afford the required mortgage payments. An increased supply of listings in the coming quarters should soften price increases in 2008.

Cost of home ownership jumps in 2007 and 2008

CMHC has calculated the principal and interest payments on a mortgage loan financing the purchase of a home selling at the average resale price. The mortgage would bear interest at the forecasted five year term rates for 2007 and 2008.

Our analysis determined that the monthly principal and interest will be about $1,189 in 2007, representing a 21.1 per cent jump from 2006, representing the highest gain in years. This will have an impact on sales moving forward as some prospective buyers re-evaluate their purchase decision. In 2008, corresponding payments will increase 5.5 per cent to approximately $1,330 monthly.

Rental Market

Average vacancy rate falls in 2007 and 2008

CMHC forecasts an average vacancy rate of 2.5 per cent in the October 2007 survey, declining further in 2008 to 2.0 per cent. CMHC has identified a number of reasons for the decline in average vacancy rate. The most important factors are rising employment and wages which have led to increased in-migration and natural rental household formation. Some projects that were suffering from deferred maintenance have also been rehabilitated, increasing their appeal and leading to declines in turnover and vacancy. As mentioned, escalating homeownership costs will also prevent some renters from making the move toward a home purchase.

Robust rent increases in 2007 and 2008

Our forecast calls for an increase of $30 in the monthly two-bedroom average rent in 2007 and a more modest increase of $22 to $660 in 2008. Industry representatives have advised us that out-of-province investors have been active in the Saskatoon rental market acquiring property from existing, local property owners. Historically, new owners implement cosmetic and rehabilitation improvements accompanied by rent increases.

Economic Outlook

Employment growth driving housing demand

Following a poor performance in Saskatoon's labour market in 2006, CMHC is forecasting average employment growth of 5,200 this year and 1,300 additional employed, or one per cent growth, in 2008.

(See Figure 3)

Saskatoon housing demand stems from a buoyant economy producing jobs and income for homebuyers and renters. Saskatoon employers have been hard-pressed to find enough skilled workers to expand their businesses. This is demonstrated by declining numbers of unemployed and rising participation rates. Our forecast assumes that, although still important, these sources are nearly exhausted and employers will increasingly depend on in-migration to satisfy hiring needs. Accordingly, net migration is expected to improve throughout the forecast period, although not at a rapid pace since Alberta will remain the prime destination for interprovincial migrants.

The construction and trade sectors have been the main contributors to employment growth in 2006 and we expect these areas will continue to be important sources of employment gains in 2007 and 2008. The construction sector will be particularly robust, driven by construction projects at the University of Saskatchewan, various city infrastructure projects as well as residential projects. University projects already started or to be started in 2007 and beyond are valued at close to half a billion dollars.

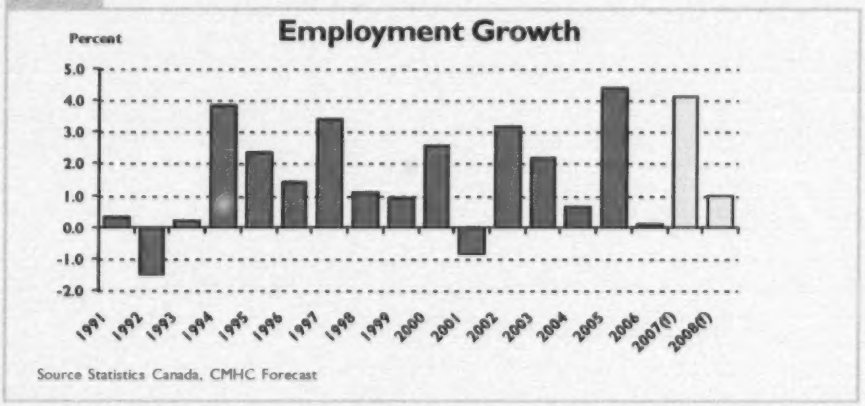
Mortgage rates will remain low

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2008.

Short-term mortgage rates will also ease as the prime rate nudges down over the next twelve months while the long-term mortgage rates will rise slightly in line with bond rates.

One, three and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00, and 6.25-7.25 per cent ranges respectively over the rest of this year and in 2008.

Figure 3



Source Statistics Canada, CMHC Forecast

Forecast Summary Saskatoon CMA Spring 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	2,999	3,246	3,430	3,900	13.7	3,600	-7.7
MLS® New Listings	4,695	4,908	4,637	4,700	1.4	4,700	0.0
MLS® Average Price ($)	132,549	144,787	160,577	195,000	21.4	214,500	10.0
New Home Market							
Starts:							
Single-Detached	753	751	959	1,000	4.3	1,000	0.0
Multiples	825	311	537	550	2.4	500	-9.1
Starts - Total	1,578	1,062	1,496	1,550	3.6	1,500	-3.2
Average Price ($):							
Single-Detached	199,877	213,464	239,365	275,000	14.9	300,000	9.1
Median Price ($):							
Single-Detached	187,435	198,177	219,687		-		-
New Housing Price Index (% chg.)	5.4	5.6	9.1	16.0	-	16.0	-
Rental Market							
October Vacancy Rate (%)	6.3	4.6	3.2	2.5	-	2.0	-
Two-bedroom Average Rent (October) ($)	580	584	608	638	4.9	660	3.4
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.40	-	6.29	-
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	6.63	-	6.80	-
Annual Employment Level	121,100	126,400	128,000	131,700	2.9	133,000	1.0
Employment Growth (%)	0.7	4.4	1.3	2.9	-	1.0	-
Unemployment rate (%)	6.2	5.0	4.4	4.0	-	4.0	-
Net Migration	459	-378	-286	600	-	700	16.7

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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